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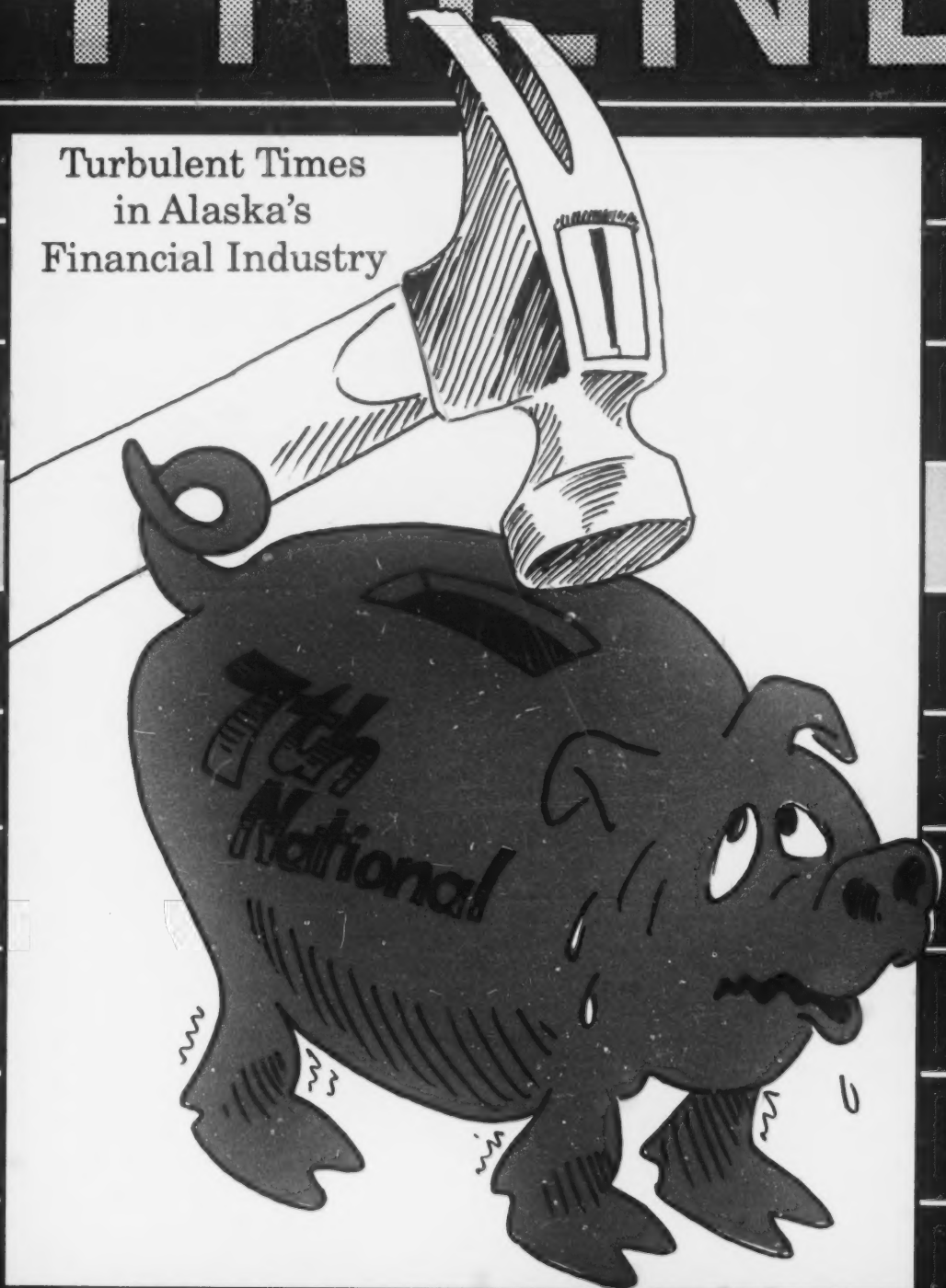
ALASKA ECONOMIC TRENDS

Turbulent Times in Alaska's Financial Industry



November 1988

Alaska's Entrepreneurs

Alaska's Employment Scene

Alaska Economic Trends

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The following notes pertain to Nonagricultural Wage and Salary Employment Tables:

Government includes teachers in primary and secondary schools, and personnel employed by the University of Alaska.

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P/ Denotes preliminary estimates

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We welcome contributions on current economic issues from our readers. For a copy of our editorial policy contact John Boucher, Editor, Alaska Economic Trends, Alaska Department of Labor, P.O. Box 25501, Juneau,

Turbulent Times in Alaska's Financial Industry

By Neal Fried and Holly Stinson

Until recently, Alaska's financial industry operated quietly behind the state's economic scene. Often considered a conservative and heavily regulated industry, it rarely garnered much public interest or media attention. But in early 1986, when Peninsula Savings and Loan failed, the spotlight began to shine on the industry. The shine quickly turned into a glare, when later that year Security National Bank failed. This was the first bank in Alaska's post-depression history forced to close its doors. The number of casualties continued to climb, reaching a total of nine this past August when Alaska Continental Bank shut down. More front page news on the industry is sure to come.

This review of Alaska's financial industry will do more than report its troubles. The discussion will be limited to banks, saving and loans and credit unions — the regulated side of the industry. Discussed will be how these institutions operate differently and similarly; what deregulation has meant to this industry; how Alaska's financial industry compares with the national scene; what the industry's trends have been over the past nine years; and finally a look at why the industry has fallen on hard times.

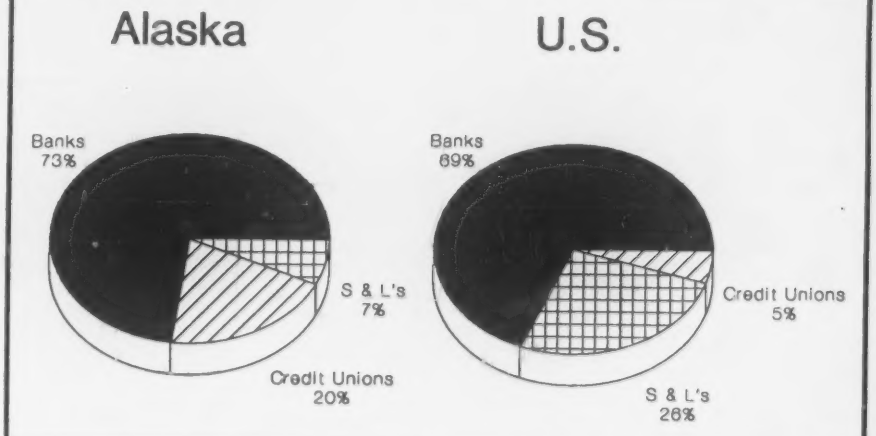
Before deregulation, it was easy to know who did what in the money game

Who The Players Are

Before deregulation of the financial services industry began in 1980, it was easy to know who did what in the money game. Rules had been in place since the Depression which drew strict lines between the players. Commercial banks were the only type of financial institution that existed "for doing business." They handled business and consumer deposits and made loans on residential and commercial property. Savings and loan associations were strictly what their name implied- they handled savings accounts and made loans, almost exclusively home mortgage loans. Credit unions were nonprofit cooperatives, unique in the financial sector, operating on the one-member, one-vote principle. They existed primarily to make consumer loans. Banks could loan for home mortgages and S&Ls could make consumer loans, but the primary purposes of the three types of institutions were separate and distinct from each other.

Since in 1980, federal legislation has allowed some deregulation of the financial industry in gradual steps. A major impetus for deregulation came from bankers. New players such as stockbrokers had entered the game, and they were offering new financial instruments such as money market and NOW accounts. To survive, banks needed to become more competitive. Ceilings on interest rates - both charged on loans and paid on deposits - have been phased out with deregulation. Intrastate branching and interstate banking are now allowed in most states.

Figure 1
Market Share of Deposits by Institution
Alaska and U.S.-1987



In Alaska commercial banks have over 70% of deposits

Savings and loans can and usually do offer services traditionally handled by commercial banks; credit unions make home mortgage loans and offer transaction accounts. The lines dividing the various institutions have become blurred, almost indistinct in some cases.

How the Pie is Sliced

Commercial banks have the largest share of the market, both nationwide and in Alaska. In Alaska banks have over 70% of deposits (Figure 1). Included in this 70% are the deposits of the lone savings bank (Mt. McKinley in Fairbanks) and, before changing to a commercial bank in 1982, Alaska's only other savings bank (Alaska Mutual Savings Bank in Anchorage).

Savings and loan associations nationwide have about half the assets of banks. In Alaska their market share is much smaller. Total deposits in Alaskan S&Ls in 1987 were $377 million, less than one-tenth of the deposits in commercial banks. Unlike the rest of the country where S&Ls rather than banks have made the majority of home mortgages, in Alaska the opposite is true.

Credit unions have a small market share nationwide but have a more significant role in the Alaskan financial picture. In June 1987 deposits in all credit unions in the U.S. totalled over $160 billion, small potatoes compared to commercial banks' almost $2 trillion in deposits. But in Alaska credit unions had over $1.1 billion, a 20% share, of a

Table 1
Assets of Alaska's Banks
(millions of dollars as of June 30)

	1980	1981	1982	1983[1]	1984	1985	1986	1987	1988
Alaska Bank Of Commerce[2]	$168.5	$196.8	$294.9	—	—	—	—	—	—
Alaska Continental Bank[3]	—	—	—	$ 29.6	$ 44.9	$ 51.0	$ 57.7	$ 54.6	$ 51.5
Alaska Mutual (Savings) Bank[4]	208.3	214.7	337.6	452.6	572.9	705.3	839.9	609.0	—
Alaska National Bank of the North[5]	250.6	262.4	266.0	304.6	299.3	328.4	305.6	228.2	—
Alaska Pacific Bank[6]	105.6	113.9	152.8	152.9	236.0	288.6	338.8	387.3	—
Alaska Statebank	102.4	113.0	116.5	160.6	178.1	166.9	161.1	131.0	109.2
Alliance Bank[7]	—	—	—	—	—	—	—	—	1,063.3
B.M. Behrends Bank	49.1	49.1	56.9	64.9	69.0	65.7	61.0	66.6	61.6
Denali State Bank[8]	—	—	—	—	—	—	14.5	23.9	31.7
First Bank (of Ketchikan)	67.5	76.2	73.7	109.0	102.9	129.1	146.1	156.0	159.0
First Interstate (franchise)[9]	—	—	—	394.0	425.6	398.7	394.9	359.4	—
First National Bank of Anchorage	477.2	563.5	578.4	651.0	604.6	675.1	699.2	801.2	885.9
First National Bank of Fairbanks[10]	80.9	93.1	107.6	152.9	172.3	207.4	219.6	219.8	—
Key Bank	—	—	—	—	—	—	—	—	569.0
Mt. McKinley Mutual Savings Bank	61.0	58.2	69.5	74.7	81.5	76.1	77.0	81.0	88.2
National Bank of Alaska	579.7	700.3	833.5	1,021.6	971.6	1,084.8	1,118.6	1,220.8	1,565.9
People's Bank & Trust[11]	46.9	49.7	55.3	74.4	—	—	—	—	—
Rainier Bank of Alaska	--	—	—	—	77.5	96.5	129.8	145.8	144.3
Security National Bank[12]	22.7	16.3	28.1	39.8	48.6	48.0	43.0	—	—
United Bank of Alaska[13]	111.0	121.7	158.7	284.8	342.1	412.8	471.0	332.4	—
United Bank of Alaska, Southeastern[14]	—	—	—	—	—	63.8	62.2	53.3	—
Total	2,331.5	2,628.9	3,129.4	3,997.2	4,226.8	4,798.3	5,440.0	4,870.5	4,729.7

Source: Division of Banking and The Anchorage Daily News.

1 As of Sep. 30.
2 Became 1st Interstate in Sep. 1983.
3 Chartered in 1982; closed and acquired by 1st Interstate in Aug. 1988.
4 Became a commercial bank 1982; merged with UBA to form Alliance in Dec. 1987.
5 Closed in Oct. 1987.
6 Purchased by Key Corp. in April 1985.
7 Formed by a merger of UBA & AMB in Dec. 1987.
8 Chartered in Feb. 1986.
9 Closed in Dec. 1987.
10 Purchased by Alaska Pacific Bank Co. in 1977; became Key Bank in Oct. 1987.
11 Acquired by Rainier in Aug. 1983.
12 Closed in Oct. 1986.
13 Merged with AMB to form Alliance in Dec. 1987.
14 Merged with Alliance in Jan. 1988.

the $5.5 billion in deposits.

Why do credit unions have such a large market share in Alaska? Alaska has a high percentage of federal government employment, both military and civilian, and those government employees contribute to the large percentage of credit union members in the state. The first credit unions in Alaska were formed in the 1940s by employees in the timber industry in Southeast Alaska and civilians at Elmendorf Air Force Base near Anchorage. The credit union started at Elmendorf has grown into Alaska USA, third-largest in the country.

Regionally, Anchorage is clearly the financial center of the state with almost $4 billion in total deposits in 1987 (Figure 2). Deposits in Southeast Alaska in 1987 were almost $700 million, including Juneau's $267 million, while Fairbanks had close to $500 million in deposits. What skews this picture is the fact that many large transactions - both deposits and loans - are handled in the Anchorage-based headquarters of a bank, rather than the community's local branch.

Watchdogs of the Industry.

All three types of financial institutions have a choice of being state or federally chartered; the charter then dictates whether a state or federal government agency regulates operations. Federal charters are obtained from the Comptroller of the Currency for banks, the Federal Home Loan Bank Board for S&Ls, and the National Credit Union Association for credit unions.

The Federal Deposit Insurance Corporation (FDIC) insures deposits in banks; the Federal Savings & Loan Insurance Corporation (FSLIC) is the corresponding federal insuring agency for savings and loans, and the National Credit Union Share Insurance Fund (NCUSIF) for credit unions. Federally-chartered institutions' membership in the federal insuring agencies is mandatory. State-chartered institutions' membership is often optional though some states mandate membership. To the consumer, though, there is not much difference in who charters the institution, the important thing is that deposits are insured.

The FDIC, FSLIC, and NCUSIF are independent federal agencies which receive operating money by charging a premium, a percentage of their deposits, to member institutions. Recent headlines have described huge amounts of money FSLIC has spent "bailing out" troubled S&Ls. Estimates of what it will cost to solve the problems in the S&L industry range from $30 to 100 billion, figures which FSLIC alone will probably not be able to cover.

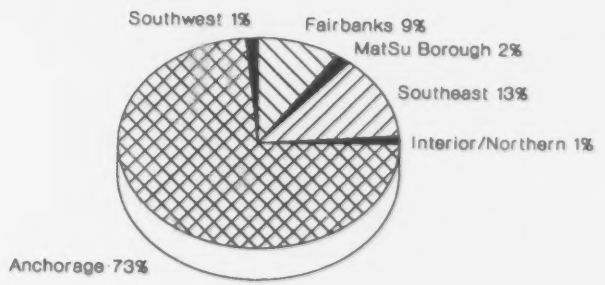
Deregulation Changes the Picture.

A major change caused by deregulation has been in the amount of operating money institutions generate. Banks, S&Ls and credit unions all work on the same principle: take in Customer A's money for safekeeping, and lend it to Customer B; charge customer B a higher rate for using the money than you give Customer A for depositing money, and use the funds generated by the difference to operate. This "spread", along with money earned on investments, constitute income for the institution.

Assets include loans made to individuals and businesses. Though a loan may not seem to be much of an

Anchorage is clearly the financial center of the state

Figure 2
Deposits by Region 1987



Source: Sheshunoff Information Svc Inc

The deposit to loan ratio of Alaskan banks varies greatly, from less than 50% to over 70%

asset to the lay person, loans are the bread and butter of the industry. Bankers talk about a "deposit to loan ratio" which simply means the percent of deposits which they turn around and loan out in the local community, with the accompanying risk, rather than investing in securities. The deposit to loan ratio of Alaskan banks varies greatly, from less than 50% to over 70%. That is, some banks reinvest heavily in the local community by making loans; others take in money from a community as deposits but play it safe by investing in securities rather than local loans. This practice earns money for a bank, but some believe it is not helping their community as much as a bank with a high deposit to loan ratio.

Since ceilings on interest rates were lifted, and the competition for savings and transaction accounts was expanded to include S&Ls, credit unions and "nonbanks" such as Merrill Lynch and Sears, the difference between interest earned and interest paid has narrowed. The narrowing or actual disappearance of the "spread" has caused many of the failures in the financial industry in the 1980s.

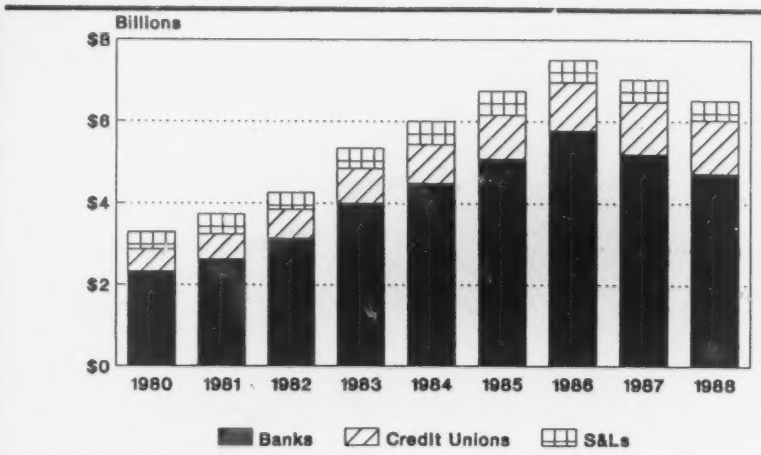
Perhaps the greatest impact of deregulation on the banking industry is the additional competition from S&Ls, credit unions, and "nonbanks" which can now offer many of the same services once the exclusive province of commercial banks. For example, car loans are now often made through financial institutions affiliated with the automotive industry, and higher balance transaction and savings accounts are often transferred to a "nonbank" type of institution which offers a better interest rate.

While banks in Alaska have been allowed to have branches in various areas within the state since territorial days, intrastate branching was not allowed by most states. Federal law prohibited banks from branching across state lines (unless allowed by state law), so banks generally did not have a large geographic spread. This meant that banks were tied to one area, and when the area suffered an economic recession, so did the bank.

Deregulation, however, changed the industry and geographic restrictions on interstate banking were lifted by many states. While some states place limits on interstate banking, Alaska is one of the few states with no restrictions. The ability to operate in more than one state has given banks the opportunity to expand their geographic spread and therefore minimize their risk. Across the nation small banks have been gobbled up by larger banks through mergers and acquisitions. A Touche-Ross survey in 1986 of 355 bank executives across the nation predicts that the number of banks will be cut in half by the mid-1990s.

Contrary to expectations, when restrictions were lifted on interstate banking Alaska did not experience an influx of large banks eager to expand into the state. The market in Alaska was just too small to interest many outside investors. The exceptions are Rainier's purchase of People's Bank in August 1983, Key Corporation's purchase of Alaska Pacific Bank in April 1985, and First Interstate's recent purchase of Alaska Continental Bank.

Figure 3
Assets of Alaska's Financial Institutions



Sources: Banks—Division of Banking. S&L's—Federal Home Loan Bank Board. Credit Unions—Alaska Credit Union League. 1988 is estimated.

Deregulation Impacts S&Ls and Co-ops.

In the past, savings and loan associations had two advantages over commercial banks. Federal law allowed S&Ls to pay a 1/4% higher rate of interest on deposits, and most of the S&Ls were nonprofit corporations which only had to break even, rather than trying to make a profit for shareholders. While deregulation allowed them to offer more services and therefore become more competitive with banks, deregulation also took away one of their advantages by lifting the ceilings on interest rates.

Savings and loans traditionally were often squeezed by their very nature of "funding short and lending long", i.e. taking in time deposits for relatively short periods, where the interest rate can vary greatly, and lending out money for mortgages over a long period of time (up to 30 years) at a fixed interest rate. When a savings and loan pays a higher interest rate on deposits than it receives on loans, the "spread" to operate on not only disappears, but becomes a negative number.

The current problems in the S&L industry nationwide have been well publicized. Since deregulation S&Ls have acquired additional difficulties besides the traditional one of interest rate differentials. A variety of reasons have been given for what is now being called the crisis in the S&L industry, ranging from growth that was too fast, management that was inadequate or questionable, and poor supervision from regulatory agencies that couldn't keep up with the rapid expansion of the industry.

The age of deregulation has seen Alaska's already small number of S&Ls shrink even more, from six in 1980 to three in 1988. Arctic Savings and Loan in Fairbanks merged with First Federal of Anchorage in 1981. Peninsula Savings & Loan, whose offices were all located on the Kenai Peninsula, was closed in August 1986, followed by Frontier Savings and Loan in Fairbanks in June 1987.

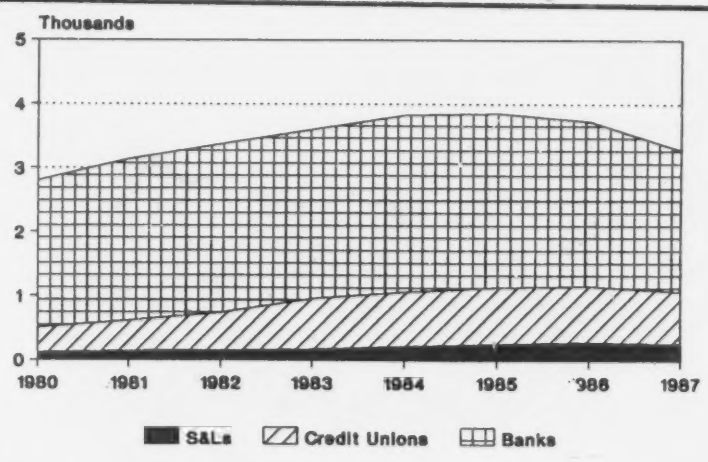
Deregulation also changed the scope of services offered by credit unions, just as it did with banks and S&Ls. Originally existing for consumer loans and savings deposits (like S&Ls, credit unions could legally offer a higher interest rate than banks), today credit unions often deal in mortgages, transaction accounts and various money market accounts.

Membership in credit unions is limited to people with a "common bond" (such as employer or trade association) or geographic location. The definition of "common bond" was broadened with deregulation; in 1988 every Alaskan is technically eligible to join at least one credit union. An important advantage that credit unions have always enjoyed over banks and S&Ls is their nonprofit status, credit unions do not pay any state business taxes or federal income taxes.

The number of credit unions in Alaska has shrunk, as have the number of banks and S&Ls. But some of the mergers and acquisitions in the credit union sector of the industry can be traced to a reason other than shaky financial health — when a business fails or is bought out, any associated credit union must either find another credit union to merge with or cease to exist.

When a savings and loan pays a higher interest rate on deposits than it receives on loans, the "spread" to operate on disappears

Figure 4
Employment in Alaska's Financial Industry



Source: Alaska Department of Labor

A 58% increase in the value of OREOs held by banks was one sign of an impending crisis

The Industry Prospers 1980-1985.

In today's economic environment it is sometimes hard to remember that Alaska's financial industry enjoyed many more profitable years than lean years. The last period of major expansion for the industry took place from 1980 to 1985. During this time, Alaska's economy grew at an annual clip of 6%; the financial industry was one of the primary beneficiaries of this boom. Businesses and individuals needed to borrow to expand or start new businesses, and to buy homes, cars, and large consumer items. Alaska's financial institutions responded generously — some people say too generously.

Bank assets in the state more than doubled from 1980 to 1985 (Figure 3). Credit union assets more than doubled. Assets of S&Ls also climbed. In comparison, bank and credit union assets nationwide grew 46% and 63% respectively. Growth in Alaska's bank assets was accompanied by a corresponding growth in deposits. Total bank deposits grew almost as rapidly as assets, from $2 billion to $4.2 billion.

The bank with the most phenomenal growth was Alaska Mutual. Their assets more than tripled, growing from the fourth largest bank in 1980 to the second largest in 1985 (Table 1). As one of the most aggressive lenders in the market, its loans grew from $94 million to $503 million during the same period. Profits more than doubled in three years, climbing to $8.6 million in 1985. The state's largest bank, National Bank of Alaska, nearly doubled their assets from 1980 to 1985, putting them in the billion dollar league. Even Home Savings Bank, a small savings and loan, saw their assets grow from $17.1 million to $77 million. The Alaska financial industry was on a roll.

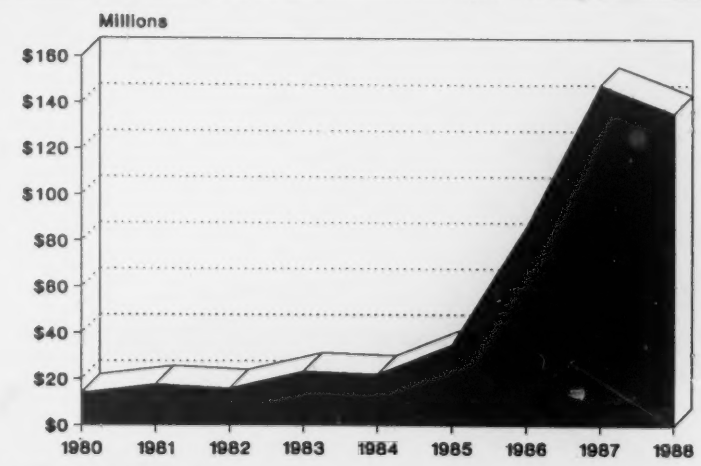
The number of banks climbed from 14 in 1980 to a high of 16 in 1984. Surprisingly, the number of credit unions actually fell slightly because of a wave of mergers. Employment in all of the institutions grew dramatically (Figure 4). Employment at the banks grew by 37% and S&L and credit union employment more than doubled. Other financial institution indicators confirm the incredible growth this industry experienced. Profits grew; two of Alaska's banks were among the most profitable in the nation. These were heady times for Alaska's financial industry, and it was hard to find anything conservative about them.

Signs of Weakness.

In 1985 the economy appeared relatively sound. The economy was slowing down, but it was still growing. Oil prices were above $20 a barrel. Most economic forecasts predicted the economy would turn sluggish but would continue to eke out some growth. Asset and demand deposit growth remained exceptionally strong. Weakness in the real estate market had become clear; however, many people believed it was only because builders were getting ahead of the demand and not because a permanent surplus was being constructed. A number of institutions began to tighten up their real estate lending requirements. Though problems with some of the banks were becoming apparent to many in the financial community, there was little word of it on the street.

Symptoms of ill financial health in some of the institutions began to show up in the statistics in 1985. A 58% increase in the value of OREOs (other real estate owned) held by banks was one symptom (Figure 5). OREOs basically translate into real estate loans gone bad, with the banks left holding the property. These figures

Figure 5
Other Real Estate Owned (OREOs) by Alaska's Banks



Source: Division of Banking

are understated for two reasons. A large share of the OREOs are held by outside banks that don't have to report to state banking authorities, and a number of Alaska banks, that are held by bank holding companies, shift their OREOs over to their holding company, which has no reporting requirement. The profit picture was also sliding for most of the banks. Security National Bank was the only bank that was in obvious trouble. It was operating with large losses. There were still a few investors in Fairbanks who felt bullish enough about the economy to open a new bank in 1986, Denali State Bank.

Financial Institutions Begin to Fail.

The watershed year for many of the state's financial institutions was 1986. One of the worst recessions in the state's history began to grip the economy. It was not the typical recession of the past; it would be deeper, broader and longer. An increasing number of businesses could no longer keep up with loan payments and many went bankrupt. During better economic times financial institutions could often recoup a large share of their loan losses by taking possession of the borrowers' collateral and selling it. In Alaska, the collateral was often real estate, which had lost much of its value. A combination of the growing number of nonperforming loans and the loss in value of real estate threw many of the state's financial institutions up against the ropes.

The Alaska Teamsters Federal Credit Union became the first casualty when federal regulators took it over and later merged it with another credit union. The next casualty was Peninsula Savings and Loan based out of Soldotna. Then the first bank failed when Security National Bank was shut down by federal regulators. Within a five month period all three varieties of Alaska's regulated financial institutions had been hit: credit unions, savings and loans, and banks. The list grew to five by year-end. It quickly became obvious that these were not isolated cases, but instead marked the beginning of extremely trying times for the industry.

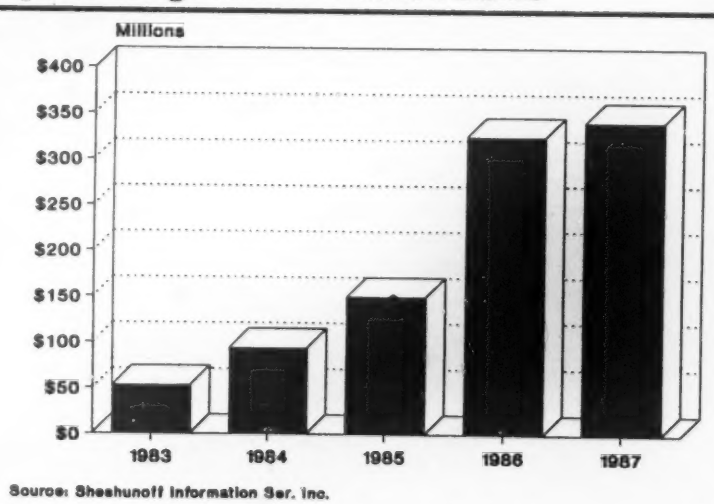
By 1986 more than half of the banks and all of the S&Ls were losing income. The value of nonperforming loans for banks climbed to $325 million (Figure 6). OREOs doubled to $87 million. The FDIC moved into Alaska in full force. Credit union membership began to fall for the first time. The overall picture would only worsen.

The next year, 1987, proved to be a disaster for a growing number of financial institutions in Alaska. Five hundred and fifty jobs were lost in this industry in 1987. OREOs hit a record high of $148 million. Total assets and deposits for banks and S&Ls fell in 1987. Loans would fall even harder. Liabilities of two banks grew larger than their assets, which meant they were operating with a negative net worth-they were insolvent. The number of troubled S&Ls in the country grew dramatically in 1987 and Alaska was no exception. The state's S&Ls lost $39.5 million in net income, which stacked up to be the largest negative rates of return in the nation. One more savings and loan and four more banks were either shut down or merged by federal regulators during 1987; of these the most spectacular involved the state's second largest bank, Alaska Mutual.

Two days before the end of the year federal regulators merged Alaska Mutual Bank with another troubled bank, United Bank of Alaska, to create Alliance Bank. Combined, these banks lost $71 million in 1986 and another $231 million in 1987. They were merged instead of being shut down because given the size of their assets some people

In 1986 the value of nonperforming loans for banks climbed to $325 million

Figure 6
Nonperforming Loans of Alaska's Banks



Source: Sheshunoff Information Ser. Inc.

believed their collapse would reverberate throughout the state's economy and cause irreparable harm. In the longer run it was calculated to be cheaper for FDIC to bail them out than to let them fail. It cost FDIC $295 million and a private investment group an additional $65 million (which has been 90% guaranteed by FDIC) to recapitalize the newly formed Alliance Bank. Early the next year United Bank of Alaska-Southeast was also merged into Alliance, temporarily creating the state's largest bank.

The failures did not end in 1987, but continued to climb by two more in 1988. Additional failures are predicted for the upcoming 12 months. A number of banks and saving and loans are operating with primary capital reserves below the 5-6 percent level recommended to cover possible losses and protect deposits. For example, Alaska Statebank recently reported they are operating with primary capital reserves of less than one percent of assets. Some of these institutions are also operating with negative net worth. Regulators usually don't allow a condition like that to last long.

The Railbelt Hit Hardest

All but one of the failures or mergers in the industry have taken place along the railbelt, which has felt the brunt of the recession. Eight institutions were headquartered in Anchorage, two in Fairbanks and one in Soldotna. If they did have branch operations, their branches were usually concentrated in the railbelt. In contrast, there has been one merger in Southeast Alaska, where the economy has remained relatively healthy. Some of the larger banks, headquartered in Anchorage but with branches throughout the state, were also helped by having this geographic diversity.

Why So Many Failures?

Since the Great Depression no financial institution had failed in Alaska, and during just the past year there have been six in banking alone. Why so many failures? There is no doubt that poor management was responsible for some of these failures. This may be particularly true for the earlier failures, where problems began prior to the recession. Some people believe that all of the failures were a result of bad management. If these institutions had not been as eager to grow as fast as they did, and had been more careful screening loans and developing a strong deposit base, they might not have failed. There are institutions that followed this credo and are presently performing quite well.

Everyone agrees that caution will prevail for many years in this industry

But it is also true that the severity of the recession was not anticipated by anyone. Some argue, given these extenuating circumstances, that even well-managed institutions might not survive. Banking and S&L failures nationwide are concentrated in economically stressed oil producing and agricultural states. Deregulation of the financial markets added another layer of stress on top of an already failing economy. This is particularly true for Alaska's S&Ls, but, as explained above, all of them are facing an increasingly competitive environment.

Other Consequences

The immediate consequences of these failures are many. Though all deposits up to $100,000 have been insured, many businesses and individuals with larger deposits in failed institutions lost part of their money. Hundreds of jobs have been lost. Some businesses have lost their line of credit and have been forced to close their doors. Stockholders either lost the entire value of their stock or, in the case of a mandatory merger, most of its value.

There are basically two schools of thought concerning the longer term effects of the financial industry's problems. One group believes that beside the immediate losses, there will be future negative impacts that will dog Alaska's economy. They maintain that a loss of credit lines will force additional businesses, which are otherwise healthy, to shut their doors. For individuals without a proven track record who wish to open a new business, getting a loan in today's environment will be almost impossible. Because some of the surviving institutions have always been extremely conservative and the others have become much more adverse to risk, economic growth could be stifled in the future. Outside institutions, which traditionally provided much of the needed capital for Alaska in the past, have also gotten cold feet because of their bad experiences.

The other school believes that even in today's market, a business which is operating successfully or an individual with a good solid financial plan can find a line of credit. They firmly believe that as soon as the economy begins a solid turnaround, financial institutions will be there to make the necessary loans. They predict that eventually there will be new entry into the market and more Alaska banks will be acquired by larger outside banks, providing greater access to capital markets. Most financial institutions fall between the two schools. Everyone agrees that caution will prevail for many years in this industry.

Alaska's Entrepreneurs

By Dan Zobrist and Kevin O'Sullivan

Entrepreneurship, according to some sources, is spontaneous and evolutionary. It can be the natural inclination of individuals steeped in a culture which stresses individuality rather than conformity. Palgrave's dictionary translates this french word to mean "the undertaker of a project". Alaskans are natural entrepreneurs. Where else in the world would they invent an international 1,000 mile sled dog race that is featured by the national and international media and the harbinger of European long distance dog racing?

Entrepreneurs are typically undertakers of their **own** projects. Not everyone agrees that all self-employed workers are entrepreneurs but self-employment, and its attendant financial risk, is one important criteria that makes the entrepreneur. For the purposes of this article, entrepreneurs may be lawyers, independent craftspeople or artists, small business folks, or any other self-employed person who works for profit or fees in their own unincorporated business, profession or trade.

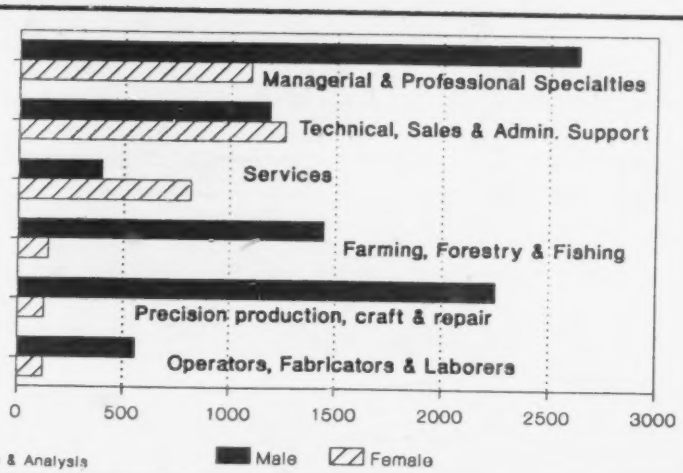
In 1980, about 1 in 13 employed workers in Alaska were self-employed

There is little current information available on the number of self-employed workers in Alaska. Every ten years, census enumerators make estimates of self-employed workers and their occupation. These estimates can be compared from each census and may yield some valuable information on demographic and employment trends among the self-employed. Other studies have used a different methodology and investigated in a piecemeal fashion the magnitude of self-employment in one or more occupations. This second method may serve the immediate purpose for which it was initiated but also may leave many questions unanswered. This article will summarize the information on self-employment available from the Bureau of the Census and report on the ongoing work to identify the extent and distribution of self-employed workers in Alaska.

Census Information

The 1980 Census of Population estimated that 12,015 workers, or about 1 in 13 of all employed workers, in Alaska were self-employed. Females accounted for 3,560 or 30% of all self-employed workers in Alaska. Of six broad occupational categories, females were a majority of the total self-employed in two: service occupations and technical, sales and administrative support occupations (Figure 1). Within these two occupational groups, females are most numerous in financial records processing occupations (264 females versus 30 males) within the larger category of technical, sales and administrative support occupations, and personal service occupations (627 females versus 135 males), such as hairdressers and child care workers, within the category of service occupations.

Figure 1
Self-Employment by Occupational Group
Males and Females, 1980



A comparison of the 1970 and 1980 census counts show that the total number of self-employed workers in Alaska doubled during the decade. The

In Alaska, females hold a larger share of self-employment than in the rest of the U.S.

percent of the labor force who are self-employed has also grown from 6.8% in 1970 to 7.3% in 1980. During the 1970s, Alaskan female workers registered employment increases in the areas of both self-employment and wage and salary employment. This period of growth has seen female self-employment increase by 135% and their relative participation in self-employment rise from 25% to 30% of all self-employed. This amounted to an increase of over 2,000 female entrepreneurs. By comparison, self-employment for males during the 1970s increased by 3,895 workers, an 85% increase. Females were especially represented in self-employed clerical and personal service occupations. They accounted for 72% of the self-employed in these occupations in 1970, and their share grew to 88% in 1980.

Among those detailed occupations covered by the census, the largest absolute increase in self-employment came from the addition of 1,200 sales workers (Table 1). These new entrepreneurs were almost evenly divided between males and females but the 573 new female sales workers represented a 400% increase from the 1970 level. Other occupations with large percentage and numerical increases for females are personal service workers (hairdressers or child care workers), writers, artists & entertainers, typists, accountants and bookkeepers. Perhaps just as significant, in 1980 the census first recorded female self-employment in some traditional male occupations such as lawyers and physicians in the professional ranks, and mechanics and truck drivers in blue collar occupations. In addition to sales workers, males showed impressive increases in mechanics and repairers (200% increase), and the category of writers, artists and entertainers (487% increase).

U.S. and Alaska Comparisons

The 1980 U.S. census estimated that, nationwide, about 1 in 14 employed workers are self-employed, close to the same ratio as Alaska. But in Alaska, females hold a larger share of total self-employment (30% Alaska versus 23% U.S.). The higher participation rate is reflected in larger percentages of Alaska females in the occupations of managerial and professional specialties; technical, sales, and administrative support; and service occupations (Table 2). The participation rate is about equal between U.S. and Alaska females in the traditional, blue-collar male occupations with the exception of farming, forestry and fishing occupations. In these occupations the census reports that

Table 1
Self-Employment Occupations Showing Significant Growth
1970-1980

Occupation	Male		Female		Total	
	1970	1980	1970	1980	1970	1980
Accountants & auditors	54	169	25	92	79	261
Bookkeepers	11	30	90	264	101	294
Dentists	48	82	*	*	48	82
Engineers	31	140	*	6	31	146
Lawyers and judges	117	301	*	43	117	344
Mechanics and repairers	203	602	*	11	203	613
Personal service workers	123	135	175	627	298	762
Physicians	76	135	*	12	76	147
Sales workers	293	920	141	714	434	1,634
Secretaries	*	*	63	151	63	151
Truck Drivers	53	112	*	6	53	118
Typists	*	*	8	163	8	163
Writers, Artists & Ent.	65	382	43	264	108	646

* indicates little or no employment reported

Source: Research and Analysis, Alaska Department of Labor compiled from Bureau of the Census, Detailed Population Characteristics, Alaska, 1970 and 1980.

U.S. females participate approximately 60% more than their Alaskan counterparts. This may partly be due to less opportunity in farming in Alaska and partly due to a potential census under-count of commercial fishers in rural areas of the state.

Current Information

How many Alaskans are currently self-employed? And in which occupations? These questions have long frustrated economists and others attempting to estimate employment trends. Most information on employed workers comes from the confidential wage and salary data files of the Department of Labor. But self-employed workers aren't a part of this data bank since they are generally not covered by Alaska's unemployment insurance program. As demonstrated above, the U.S. census estimates the number of self-employed workers from a sample of the population counted every 10 years. This source is not able to measure changes within the decade and not timely for professionals who must plan education and training programs. To begin to address this problem, the Alaska Department of Labor, Research and Analysis began a project to estimate the size and distribution of self-employed workers in Alaska. Some initial information is listed below.

The scope of specific occupations to be researched was limited to those with an estimated employment level of 100 or more. This initial estimate was made by using the proportion of self-employed workers to wage and salary workers as estimated from the 1980 census. This ratio was then applied to the 1987 wage and salary employment level for Alaska. Occasionally, the number estimated from the research turned out less than 100 and is included in the tables as it was among the list of occupations studied. Table 3 lists occupations where estimates have been made of the number of self-employed and wage and salary workers in 1987.

The validity (believability) of these estimates is a function of the quality of the sources tapped to gather the data. Tracking each elusive estimate required help from several areas: census files, occupational licensing records, yellow pages of telephone directories, opinions of experts regarding active memberships in

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Table 3
Alaska 1987
Self-employed and Wage and Salary Employment
Of Selected Occupations

Occupation	Wage & Salary	Self-employed	Ratio
Artists & related workers	71	1,291	18.18
Child care workers	637	378	.59
Dentists	150	70	.46
Electronic repairers	372	46	.12
Fallers and buckers	333	100	.30
Geologists	551	41	.07
Hairdressers	547	1,876	3.42
Lawyers	1,143	937	.82
Physicians	467	142	.30
Plumbers, pipefitters	889	187	.21
Truck Drivers	2,152	435	.20

Source: Alaska Department of Labor, Research and Analysis.
Special Research Project on the Self-Employed.

Table 2
Percent of Self-employed Workers By Occupation and Sex
1980 Census Alaska vs. U.S.

Occupation	ALASKA Male	ALASKA Female	ALASKA Total	U.S. Male	U.S. Female	U.S. Total
Managerial and professional specialty	21.9%	9.1%	31.0%	20.2%	6.6%	26.8%
Technical, sales and administrative support	9.8	10.5	20.3	12.9	7.3	20.2
Service	3.3	6.8	10.1	2.9	5.6	8.5
Farming, forestry and fishing	12.1	1.2	13.3	17.4	1.9	19.3
Precision production, craft and repair	18.7	1.0	19.7	17.6	0.9	18.5
Operators, fabricators and laborers	4.6	1.0	5.6	5.8	0.9	6.7
Total	70.4	29.6	100.0	76.8	23.2	100.0

Source: Research and Analysis, Alaska Department of Labor compiled from Bureau of the Census, Detailed Population Characteristics, Alaska, 1970 and 1980.

professional organizations, current holders of business licenses, and other sources. The more salient features of the source of information for each occupation listed is described below.

Artists and Related Workers- Many Alaskan Natives engage in self-employment through making art work and native craft. Some estimates range as high as 75% of the adult Native population of 45,000 people. Estimates are further confounded by the practice of one person manufacturing an item, another signing it and a third person selling the work. Estimates were made by a variety of Alaskan Native arts institutes and cooperatives leading to a final figure of about 1,300 workers, the bulk of whom are carvers living from the Northwest coast to Cook Inlet.

Child Care Workers- Nationally, self-employed child care workers represent nearly two thirds of total employment in this occupation. The proportion of self-employed child care workers in Alaska is estimated to be lower, perhaps in response to state funding for child care centers where workers are employed in wage and salary positions. In 1988, records kept by the Department of Health and Social Services indicate that there were 378 homes and 194 centers licensed as day care providers. In 1987 there were only 256 current state business licenses for child care providers. This number is of little use as it probably includes all the centers and a portion of the homes. The best estimate for self-employed child care workers is the number of licensed homes, 378.

Dentist- Two sources were used to estimate the number of self-employed dentists: the Alaska Dental Society (ADA) and the U.S. Public Health Service (USPHS). The number of active dentists in Alaska reported by the ADA is 220. The USPHS listed 28 active dentists, who would be wage and salary employees. Also, many dentists are employed by their own corporations so they are included as part of the 150 dentists who are wage and salary workers. This leaves an estimate of 70 self-employed dentists who have not formed professional corporations.

Electronic Repairers- The 1987 state directory of business licenses contained 16 listings in this occupational area. This estimate is supplemented by advertisements in yellow page directories from the major Alaskan cities for an estimate of 46 self-employed electronic repairers.

Faller and Bucker- This occupation cuts trees down and saws them into specified log lengths. They can work alone or as part of a team. There are an estimated 100 self-employed workers in this occupation. Estimates were made by owners of logging companies and employees in the wood cutting section of the Department of Natural Resources.

Geologist- Listings in the Yellow Page Directories in the major Alaskan cities total 41 self-employed geologists. This is approximately 4 times less than the national ratio. The higher percentage of wage and salary geologists in Alaska could be due to a difference in the size of firms in Alaska's mining industry relative to the rest of the U.S.

Hairdressers-The current estimate of wage and salary workers in this occupation is 547. As of February 1988 there is a total of 2,423 hairdressers licensed with the Department of Commerce and Economic Development. It is the opinion of both practicing professionals and directors of local beauty academies and hairdresser associations that virtually all licensed hairdressers are active. Subtracting the 547 wage and salary workers from the 2,423 licensed workers leaves 1,876 self-employed hairdressers in Alaska.

Lawyers- The membership of the Alaska Bar Association (ABA) totaled 2,200 lawyers and judges. The estimate of wage and salary workers in this occupation is 1,143. When the 120 judges are subtracted along with the wage and salary workers from the ABA membership, the number of self-employed lawyers is estimated to be 937. Of course, this overestimates the number of self-employed lawyers if there are a significant number of ABA members who are not employed as lawyers or judges.

Physicians- The Alaska State Medical Association identified 609 active, licensed physicians in the state. Approximately 6% of the physicians practicing in Anchorage were identified as being employed as wage and salary workers in hospitals. The U.S. Public Health Service employs 89 physicians in Alaska. The total estimate of physicians who work for wage and salary is 467. The difference between the number of licensed, active physicians and those identified as wage and salary workers can be assumed to be self-employed physicians. This relatively low number, 142, probably represents just those physicians who maintain their own practice as an unincorporated business, rather than as a professional corporation which employs the physician on salary.

Plumbers- Using the census ratio of self-employed plumbers to the number of plumbers who work for wage and salary in Alaska yields an estimate of 187 self-employed plumbers. When asked, officials in the labor organizations for plumbers responded that they were "very comfortable" with this estimate.

Again, using census ratios, there are an estimated 435 self-employed truck drivers in Alaska. This estimate was judged as "... very close to the mark" by an official at the Alaska Truckers Association.

Comparison of Census vs Current Estimates

Some marked differences in employment are shown when one compares the figures from the 1980 census against estimates of self-employed workers gleaned from lists of occupational licenses or other current sources. Part of this difference can be attributed to the sampling error inherent in the census count. Only one in six households were interviewed for information which included occupational characteristics. But most of

the increase in employment should be due to the rapid growth in the Alaska economy since the 1980 census. Entrepreneurs certainly were among the tens of thousands of new workers that migrated to the state during the boom years of the early 1980s. New economic opportunities available during those times kindled the entrepreneurial fire in long-time residents.

Summary

Entrepreneurs must be especially sensitive to changing markets and their numbers may change rapidly at any time. The decade of the 1970s saw a doubling of self-employed people in Alaska and evidence suggests that their numbers continued to grow in the 1980s. Census estimates of self-employed workers are available each decade but interim studies can provide information on emerging occupations within the decade.

Census estimates indicate that female entrepreneurs are represented in greater proportion in Alaska than in the nation. A comparison of the 1970 and 1980 census show that female participation in self-employed occupations has grown during that decade.

There is good information available to Alaskans who think they might want to be entrepreneurs. *Working for Yourself,* a publication of the Alaska Career Information System, provides tips on self-employment options, how to make a business succeed, and other topics including a self-administered test which assesses your aptitude for entrepreneurship. *Working for Yourself* is available from the many school districts and other organizations who subscribe to the Alaska Career Information System (AKCIS).

In spite of these shortcomings, GSP figures provide a broad sweep of Alaska's economy. They tell us the value of what Alaska produces. Gross state product gives a better feel for the petroleum industry's role and other industries in Alaska's economy. Combined with other economic indicators, these gross state product figures help to complete the process of painting a comprehensive picture of the state's economy.

Alaska's Employment Scene

By Brian N. Rae

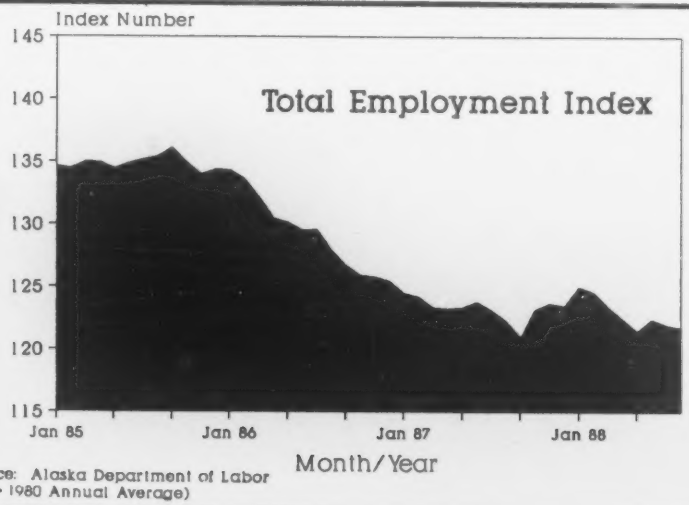
For the last several months, the authors of Alaska's Employment Scene have looked for signs that the economy has hit bottom. Employment levels are one sign which the authors follow closely. Comparisons of current employment levels with those of a year ago are common, and these levels are still quite close. These year-to-year comparisons, however, will not show an economic turnaround as quickly as some other techniques.

With employment levels falling, the current year will always be less than the prior year. Even when employment levels begin rising, the first several months of gains may still be less than the levels of a year ago. Because of this, other techniques can be more useful to show employment gains or losses. One of these techniques, called seasonal adjustment, removes the seasonal employment trends which can obscure real gains or losses.

Figure 1 shows a seasonally adjusted (taking out the effect of seasonal movements) employment index from January 1985 through August 1988. In this example, 1980 annual average employment levels equal 100, so January 1985 employment was over 34% higher than the 1980 average. As noted in the March 1988 *Trends,* the last several months of 1987 indicated the end of the employment declines. The employment indexes for the end of 1987 and the first several months of 1988 show levels boosted by the recent strength of the timber and bottomfish markets.

Figure 2 removes the manufacturing industry from the index, and better illustrates the end of employment declines. The manufacturing sector has shown the most strength of all sectors over the last two years, and its continued growth is expected. The leveling off of employment in the other sectors is the important news. This leveling off could be just a plateau, with further employment losses

Figure 1
Alaska Composite Nonag. Employment Index



Source: Alaska Department of Labor
(100 = 1980 Annual Average)

in the future. However, most believe the current levels to be the end of a two year decline, and the start of continued growth in the Alaska economy.

Of course there are factors which could adversely affect the state's economic recovery. At the time of this writing, world oil prices are trying to regain ground lost over the past two weeks. On November 1, North Slope crude delivered to the Gulf Coast was selling for $11.40 per barrel. One year ago, the price was $18.13. Some analysts believe these extremely depressed prices to be short lived, but the volatility of the world oil market makes state government budgeting a difficult and inexact task.

Depressed oil prices could adversely affect the state's economic recovery

It was reported in the September issue of *Trends* that the FY89 budget revenues could be $350 million below projections if oil prices remain at their current level and if no other sources of revenue are used. Since that time, several events have changed this outlook — things have gotten both better and worse.

On the positive side, the recent settlement between ARCO and the state regarding back taxes added $172 million to the state's budget. Combined with future settlements on $3 billion in taxes still disputed, both current and future budgets could experience similar unexpected windfalls. Using the most current information available, the FY89 budget is projected to be $50 million out of balance. This deficit is small enough that budget reserves could cover it.

The FY90 budget is another story. If spending levels are maintained at the FY89 level, the state could face a $900 million deficit. A deficit of this magnitude could not be covered by budget reserves. The two major sources of funds which could cover budget deficits, the Permanent Fund's earnings reserve of nearly $600 million and the Railbelt Energy Fund's $225 million, would still leave a budget shortfall if projections are correct.

Other sources of revenues are available, but have not been used in the recent past to boost state revenues. These include using a larger share of the earnings from the Permanent Fund or implementation of a state income or sales tax. As the earnings reserve funds are tapped, potential income gained through interest is lost. Many see the use of these funds to cover budget deficits as only a bandage, not addressing the need to increase revenues, decrease expenditures, or both.

In the long run, the state will probably have to reduce expenditures and increase revenues to achieve a balanced budget. According to a study done by the Institute of Social and Economic Research (ISER Working Paper 86.2), on average 2,000 jobs are lost for every $100 million decrease in state spending. This number varies with the particular area of the budget being decreased. Reductions in loan programs cost few jobs, capital projects have a greater impact, and cuts in the operating budget have the greatest impact on employment.

Towards the end of the Great Depression of the 1920s and 1930s, noted economist John Maynard Keynes argued for increased government expenditures, at the expense of running budget deficits, to help bolster the

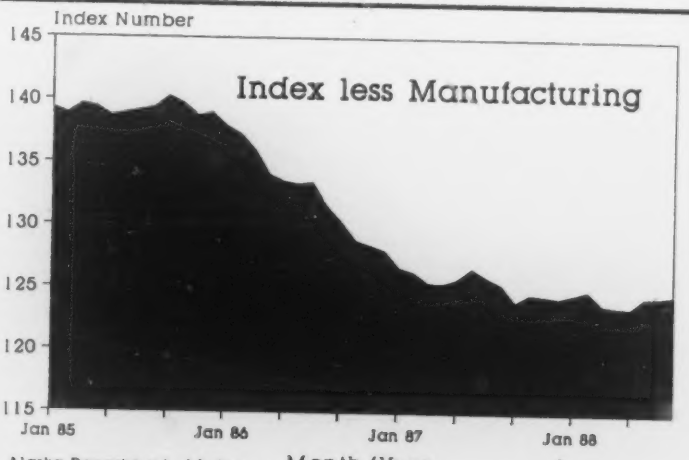
economy. His argument, supported by most economists today, was that reductions in government spending had a multiplier effect on the overall economy. The loss of any one job, public or private, in the economy threatened the existence of other jobs. Government, unlike private concerns, could continue to exist even with budget deficits. Reductions in state expenditures will be felt throughout the state's economy, and will only slow any economic recovery.

Increasing revenues will be as controversial as further cuts in the budget. Changes to the economic limit factor, or ELF, will again be a topic during the next legislative session. Designed as a mechanism to lower the tax rates of economically marginal fields, the ELF has been critized by many as reducing the tax burden on the oil companies for extremely profitable fields. Revising or repealing ELF is a sensitive issue, and one which faces stiff opposition from many lawmakers and the oil and gas industry. Still, proposed changes could increase revenues by $150 million to $200 million per year. Other options include revising the entire petroleum tax structure, as recommended in a study recently released by Arthur Laffer at the request of the legislature.

For the long run, the decreasing production of Prudhoe Bay will squeeze the state budget even further. ARCO Alaska Inc. claims that production peaked at 1.5 million barrels a day this year, and will never reach this level again. Although others including Standard Alaska Petroleum disagree with ARCO's claim, output will almost certainly be declining within two years. Other fields will be increasing production for several years, and additional fields could come on line which will help shore up the state's revenues. However, these additional fields only delay the inevitable decline in North Slope oil production.

As the state attempts to reduce its budget burden, local governments will be faced with reducing services or finding alternative ways to pay for

Figure 2
Alaska Composite Nonag. Employment Index



Source: Alaska Department of Labor
(100 = 1980 Annual Average)

Table 1
Nonagricultural Wage and Salary Employment
By Place of Work
Alaska

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	218,500	222,300	217,900	-3,800	600
Mining	9,100	9,300	8,800	-200	300
Construction	11,100	11,400	12,600	-300	-1,500
Manufacturing	16,100	20,900	15,400	-4,800	700
Seafood Processing	9,000	13,900	8,800	-4,900	200
Lumber & Paper Prod.	3,800	3,700	3,300	100	500
All Other Manufacturing	3,300	3,300	3,300	0	0
Transportation	18,800	18,900	18,900	-100	-100
Trucking & Warehousing	2,600	2,600	2,500	0	100
Water Transportation	1,100	1,200	1,100	-100	0
Air Transportation	5,700	5,900	5,500	-200	200
All Other Transportation	9,400	9,200	9,800	200	-400
Trade	43,400	43,900	43,700	-500	-300
Wholesale	7,500	7,600	7,300	-100	200
Retail	35,900	36,300	36,400	-400	-500
Gen. Mer. & Apparel	5,100	5,200	5,200	-100	-100
Food Stores	6,200	6,200	6,200	0	0
Eating & Drinking Pl.	13,400	13,600	13,900	-200	-500
All Other Retail	11,200	11,300	11,100	-100	100
Finance-Ins. & R.E.	10,700	10,900	11,000	-200	-300
Services	42,700	43,900	41,900	-1,200	800
Government	66,600	63,100	65,600	3,500	1,000
Federal	18,200	18,200	18,500	0	-300
State	20,000	18,600	18,900	1,400	1,100
Local	28,400	26,300	28,200	2,100	200

Prepared in cooperation with the U.S. Bureau of Labor Statistics. Government includes teachers in primary and secondary schools, and personnel employed by the University of Alaska.

Benchmark Date March 1987.

p/ Denotes Preliminary Estimates.
r/ Denotes Revised Estimates.

Table 2
Nonagricultural Wage and Salary Employment By Place of Work

Anchorage

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	101,700	101,900	103,050	-200	-1,350
Mining	3,600	3,600	3,200	0	400
Construction	5,350	5,650	6,550	-300	-1,200
Manufacturing	2,450	2,900	2,400	-450	50
Transportation	9,650	9,650	10,050	0	-400
Trucking & Warehousing	1,600	1,600	1,650	0	-50
Water Transportation	300	300	300	0	0
Air Transportation	3,250	3,300	3,300	-50	-50
All Other Transportation	4,500	4,450	4,800	50	-300
Trade	23,750	24,100	24,150	-350	-400
Wholesale	5,500	5,650	5,400	-150	100
Retail	18,250	18,450	18,750	-200	-500
Gen. Merch. & Apparel	2,450	2,600	2,600	-150	-150
Food Stores	2,950	2,900	2,900	50	50
Eating & Drinking Pl.	7,100	7,150	7,550	-50	-450
All Other Retail	5,750	5,800	5,700	-50	50
Finance-Ins. & R.E.	7,200	7,150	7,250	50	-50
Services	23,900	24,150	23,550	-250	350
Government	25,800	24,700	25,900	1,100	-100
Federal	10,450	10,450	10,650	0	-200
State	6,850	6,250	6,750	600	100
Local	8,500	8,000	8,500	500	0

Fairbanks

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	26,700	26,550	26,500	150	200
Mining	100	100	100	0	0
Construction	2,000	2,000	2,250	0	-250
Manufacturing	550	550	600	0	-50
Transportation	2,200	2,350	2,350	-150	-150
Trucking & Warehousing	400	400	350	0	50
Air Transportation	350	400	300	-50	50
All Other Transportation	1,450	1,550	1,700	-100	-250
Trade	5,900	6,100	5,750	-200	150
Wholesale	700	700	700	0	0
Retail	5,200	5,400	5,050	-200	150
Food Stores	850	800	850	50	0
All Other Retail	4,350	4,600	4,200	-250	150
Finance-Ins. & R.E.	850	850	950	0	-100
Services	5,650	5,950	5,550	-300	100
Government	9,450	8,650	8,950	800	500
Federal	2,900	2,950	2,850	-50	50
State	3,900	3,350	3,700	550	200
Local	2,650	2,350	2,400	300	250

Anchorage-MatSu

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	108,850	108,650	109,550	200	-700
Mining	3,650	3,650	3,200	0	450
Construction	5,650	6,000	6,800	-350	-1,150
Manufacturing	2,550	3,000	2,500	-450	50
Transportation	10,450	10,300	10,700	150	-250
Trade	25,850	26,100	25,850	-250	0
Finance-Ins. & R.E.	7,650	7,600	7,700	50	-50
Services	25,200	25,450	24,750	-250	450
Government	27,850	26,550	28,050	1,300	-200

Interior

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	30,750	30,600	30,850	150	-100
Mining	300	300	250	0	50
Construction	2,100	2,100	2,500	0	-400
Manufacturing	600	600	600	0	0
Transportation	2,600	2,650	2,700	-50	-100
Trade	6,350	6,650	6,200	-300	150
Finance-Ins. & R.E.	900	900	1,000	0	-100
Services	6,100	6,600	6,150	-500	-50
Government	11,800	10,800	11,450	1,000	350

Gulf Coast

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	21,050	23,950	20,850	-2,900	200
Mining	800	850	950	-50	-150
Construction	1,100	1,100	1,250	0	-150
Manufacturing	4,350	7,050	4,250	-2,700	100
Seafood Processing	3,750	6,450	3,650	-2,700	100
All Other Manufacturing	600	600	600	0	0
Transportation	1,350	1,400	1,350	-50	0
Trade	3,850	4,100	3,650	-250	200
Wholesale	500	550	500	-50	0
Retail	3,350	3,550	3,150	-200	200
Finance-Ins. & R.E.	600	600	600	0	0
Services	3,400	3,550	3,400	-150	0
Government	5,600	5,300	5,400	300	200
Federal	550	550	600	0	-50
State	1,800	1,650	1,600	150	200
Local	3,250	3,100	3,200	150	50

Southeast Alaska

	p/ 9/88	r/ 8/88	9/87	Changes From: 8/88	9/87
Nonag. Wage & Salary	31,750	32,350	30,400	-600	1,350
Construction	1,000	1,150	1,200	-150	-200
Manufacturing	5,700	6,200	4,900	-500	800
Seafood Processing	1,850	2,400	1,550	-550	300
Lumber & Paper Prod.	3,600	3,550	3,150	50	450
All Other Manufacturing	250	250	200	0	50
Transportation	2,350	2,450	2,350	-100	0
Trade	4,950	4,950	4,900	0	50
Wholesale	450	450	400	0	50
Retail	4,500	4,500	4,500	0	0
Finance-Ins. R.E.	1,150	1,200	1,100	-50	50
Services	4,900	5,000	4,900	-100	0
Government	11,500	11,200	10,950	300	550
Federal	2,050	2,000	2,050	50	0
State	5,200	5,150	4,950	50	250
Local	4,250	4,050	3,950	200	300

them. Measures to relocate the burden of providing certain services have already been introduced. A bill which would have required all areas of the state to incorporate was defeated last year. Its intent was to place some liability for funding schools and other public services now provided by the state on the local areas. Although defeated, many unincorporated areas are now beginning the process to incorporate before they are forced to do so in the future.

Of great concern to many of these areas is the need for revenue sources, usually taxable property. Areas of the railbelt between the Mat-Su and Fairbanks boroughs are looking to incorporate the pipeline. Areas in Southeast are looking at harvestable timber and potential mines as a source of tax revenue. As the ELF proves, care must be taken in setting up such tax structures.

Dave Carnes, chief of the Juneau office of the U.S. Bureau of Mines, urges communities to set a tax structure in place before a company decides to locate in their area. This needs to be done so that potential investors know the market they are entering. Then, measures must be taken to insure investors that the tax structure will remain stable. As the Alaskan economy diversifies, new investment can lead to both more employment and higher revenues to fund public services.

Any new taxes or tax revisions are a balancing act. Many have argued quite convincingly that a stable tax policy helps insure investment. Companies are understandably nervous about undertaking projects where their tax burden is uncertain. Market forces are again making investment in Alaska appealing to many companies, particularly those engaged in timber and mining industries. The potential for increased taxes could sway investors to seek lower but more certain returns elsewhere. This is particularly true in industries with long term projects and uncertain profit margins, which describes most of the new hard rock mining ventures.

Just as too high a tax drives out investment, too low a tax can be an equally large problem. New industries place additional burdens on certain services, and new employment usually

Employment in September 1988 is slightly above that of a year ago

Table 3
Alaska Hours and Earnings for Selected Industries [1/2]

	Average Weekly Earnings			Average Weekly Hours			Average Hourly Earnings		
	P/ 9/88	R/ 8/88	9/87	P/ 9/88	R/ 8/88	9/87	P/ 9/88	R/ 8/88	9/87
Mining	$1,151.05	$1,190.44	$1,078.52	49.7	50.7	47.2	$23.16	$23.48	$22.85
Construction	1,081.58	1,064.86	957.12	44.4	42.8	38.3	24.36	24.88	24.99
Manufacturing	484.88	507.15	496.87	38.3	46.4	40.2	12.66	10.93	12.36
Seafood Processing	284.76	407.89	347.27	34.6	48.1	38.5	8.23	8.48	9.02
Lumber & Paper Prod	745.29	689.75	682.56	45.5	43.6	43.2	16.38	15.82	15.80
Trans., Comm. & Util.	569.57	557.84	579.74	34.9	34.8	36.6	16.32	16.03	15.84
Trade	373.83	367.25	365.04	33.8	33.6	33.8	11.06	10.93	10.80
Wholesale	523.80	512.72	517.59	38.8	37.7	38.8	13.50	13.60	13.34
Retail	324.90	319.10	315.88	32.2	32.2	32.2	10.09	9.91	9.81
Finance-Ins. & R.E	412.58	388.88	387.77	34.7	32.9	33.4	11.89	11.82	11.61

Benchmark March 1987

[1] Prepared in cooperation with the Bureau of Labor Statistics US Department of Labor

[2] excludes eating and drinking establishments

AVERAGE HOURS AND EARNINGS SERIES: Averages are based on data for full and part time production workers (manufacturing) and nonsupervisory workers (nonmanufacturing) and are for gross earnings and hours paid, including overtime pay and hours.

means population increases with greater demand for public services. In this case, those persons employed by the company benefit at the possible expense of the community as a whole.

Since the early 1980s, many of the public services in the state have been financed by state government from oil revenues. Many people underestimate the real costs of providing these services. Shifting this burden to the localities, and their search for new revenue sources, will not be easy or painless. Decisions will need to be made at the local level as to the types of public services provided, and who pays for them. Without very careful planning, and some degree of luck, this level could possibly be far below current levels.

Industry Employment

The Alaskan economy historically peaks in August, with September beginning the seasonal decline in employment. This September was no exception (Table 1). Over the month, employment declined by slightly over 4,000 jobs or nearly 2%. Considering that **seafood processing** lost nearly 5,000 jobs and the service sector lost over 1,200 jobs, the overall decline was fairly moderate. More important, employment in September 1988 is slightly above that of a year ago.

When reviewing the employment changes in September, the largest mover was the seafood processing industry. After large increases during the peak season of July and August, the loss of 35% in employment is not unexpected. The salmon processing season was strong but its strength was not spread evenly over the state.

The other employment losers were sectors which receive a share of their business from tourism. **Hotels and motels** decreased their employment by about 9%, while retail trade saw a small reduction. Even though we talk about the tourism industry, companies affected by tourist traffic are spread over many different industries. Getting a handle on the employment gains caused by tourism is difficult. For example, we know that the air transportation industry benefits from tourism. The industry also benefits from the timber and mining industries, hauling mail, freight, and normal passenger service. Determining the amount of increased employment and revenues directly related to tourism would require an extensive study. The same holds true for many retail stores, services such as hotels and motels, restaurants, etc.

Another traditional movement during September is a large increase in **state and local government employment**. Both of these sectors increased over 7% with the reopening of schools. Noneducational employment in state government remained flat over the month, while local noneducational employment posted seasonal losses of 5%. For the year, only the federal employment levels continue to decline. State government employment is up by 1,100 for the year, while local government has increased by 200. These increases occurred in every area of the state.

Only two other sectors showed employment growth over the month, timber and other transportation. **Timber** continues to do well as the market remains strong. Although still

a seasonal industry, it has extended its operations to be a 10 to 11 month per year industry. For other transportation, September employment levels include both the end of the tourist season and the beginning of pupil transportation for schools.

Regional Employment Trends

Three areas of the state gained in over the year employment: Southeast, Gulf Coast, and Fairbanks (Table 2). The first two have been doing better than average over the last two years. As mentioned last month, August was the first time **Fairbanks'** employment levels were above year ago levels. In September, preliminary estimates show an increase of 200 employment in the borough. Construction, transportation, and finance-insurance and real estate all remain weak in Fairbanks, but other sectors have more than made up for these declines.

Both **Southeast and Gulf Coast** saw an expected drop in seafood processing employment over the month. Although somewhat offset by increased government employment, the two areas were below the August employment levels. Still, over the year employment gains were registered by both areas.

Interior Alaska, although helped by the economic strength of Fairbanks, was not able to post over the year gains. Declines in construction and services were too great for increased government and trade employment to overcome.

Anchorage has yet to pull out of its economic slide. Employment levels again declined over the year by 1,350. The brightest spot in Anchorage's economy is again mining, with more than a 10% rise in employment over the year. Although this is a very small portion of the Anchorage economy, many Anchorage businesses relied to varying degrees on this industry. Anchorage-Matsu was the only area of the state to show increased employment in services over the year. Except for the industries already mentioned, most others showed losses for both the month and the year.

Conclusion

As mentioned earlier, seasonally adjusted statewide employment figures suggest that losses ended about this time last year. Although this may not yet be true for all regions, growth in some areas of the state will help those areas still experiencing declines. The figures should be viewed with some caution, but again indicate that the recent recession is largely behind us. Employment will continue to decline, if past trends are followed, until the next seasonal upswing next spring. In the next few months, unemployment will rise as seasonal jobs end.

Still, this does not mean a worsening of the state's economy. The past two years have had a great impact on our economy, but its base has remained largely unchanged. Natural resource extraction bolstered the economy during bad times, and recently feasible industries such as hard rock mining will contribute to Alaska's future growth.

Seasonally adjusted figures indicate that losses ended about September of 1987

Table 4
Labor Force By Region and Census Area

	Labor Force			Unemployment			Rate			Employment		
	P/ 9/88	R/ 8/88	9/87	P/ 9/88	R/ 8/88	9/87	P/ 9/88	R/ 8/88	9/87	P/ 9/88	R/ 8/88	9/87
Alaska Statewide	244,500	252,335	253,358	17,689	19,149	21,612	7.2	7.6	8.5	226,811	233,186	231,746
Anch.-MatSu Region	126,279	128,121	131,641	8,803	9,490	10,585	7.0	7.4	8.0	117,476	118,631	121,056
Anchorage Borough	110,795	112,731	116,236	6,921	7,395	8,272	6.2	6.6	7.1	103,874	105,336	107,964
MatSu Borough	15,484	15,390	15,405	1,882	2,095	2,313	12.2	13.6	15.0	13,602	13,295	13,092
Gulf Coast Region	27,337	31,059	27,998	2,385	2,459	2,770	8.7	7.9	9.9	24,952	28,600	25,228
Kenai Peninsula Bor.	17,506	19,846	17,969	1,922	1,983	2,212	11.0	10.0	12.3	15,584	17,863	15,757
Kodiak Island Borough	6,014	6,788	6,065	269	203	256	4.5	3.0	4.2	5,745	6,585	5,809
Valdez-Cordova	3,817	4,425	3,964	194	273	302	5.1	6.2	7.6	3,623	4,152	3,662
Interior Region	36,039	36,723	38,028	3,291	3,596	4,225	9.1	9.8	11.1	32,748	33,127	33,803
Fairbanks North Star Bor	31,172	31,684	32,802	2,877	3,062	3,596	9.2	9.7	11.0	28,295	28,622	29,206
Southeast Fairbanks	2,071	2,149	2,224	161	217	252	7.8	10.1	11.3	1,910	1,932	1,972
Yukon-Koyukuk	2,796	2,890	3,002	253	317	377	9.0	11.0	12.6	2,543	2,573	2,625
Northern Region	8,013	7,996	8,385	640	815	722	8.0	10.2	8.6	7,373	7,181	7,663
Nome	3,085	3,112	3,259	279	379	343	9.0	12.2	10.5	2,806	2,733	2,916
North Slope Borough	2,849	2,795	2,938	135	152	117	4.7	5.4	4.0	2,714	2,643	2,821
Northwest Arctic Bor	2,079	2,089	2,188	226	284	262	10.9	13.6	12.0	1,853	1,805	1,926
Southeast Region	34,652	35,816	34,597	1,870	1,999	2,391	5.4	5.6	6.9	32,782	33,817	32,206
Haines Borough	883	915	875	56	62	63	6.3	6.8	7.2	827	853	812
Juneau Borough	15,421	15,918	15,275	804	840	916	5.2	5.3	6.0	14,617	15,078	14,359
Ketchikan Gateway Bor.	6,820	7,036	6,834	342	354	470	5.0	5.0	6.9	6,478	6,682	6,364
Pr. of Wales-Outer Ketch	2,573	2,650	2,612	224	226	304	8.7	8.5	11.6	2,349	2,424	2,308
Sitka Borough	4,124	4,267	4,128	193	212	266	4.7	5.0	6.4	3,931	4,055	3,862
Skagway-Yakutat-Ang	1,546	1,639	1,599	95	142	173	6.1	8.7	10.8	1,451	1,497	1,426
Wrangell-Petersburg	3,285	3,391	3,274	156	163	199	4.7	4.8	6.1	3,129	3,228	3,075
Southwest Region	12,180	12,620	12,709	700	790	919	5.7	6.3	7.2	11,480	11,830	11,790
Aleutian Islands	3,392	3,506	3,504	86	99	109	2.5	2.8	3.1	3,306	3,407	3,395
Bethel	4,717	4,933	5,000	313	394	477	6.6	8.0	9.5	4,404	4,539	4,523
Bristol Bay Borough	429	439	437	30	28	28	7.0	6.4	6.4	399	411	409
Dillingham	2,144	2,203	2,219	93	89	112	4.3	4.0	5.0	2,051	2,114	2,107
Wade Hampton	1,498	1,539	1,549	178	180	193	11.9	11.7	12.5	1,320	1,359	1,356

P/ = Preliminary R/ = Revised 1987 Benchmark

Federal guidelines require the use of unrounded labor force data, adjusted to be consistent with the Current Population Survey (CPS) in formulas used to allocate federal funds. Comparisons between different time periods are not as meaningful as other time series published by the Alaska Department of Labor; because Alaska's CPS sample size is inadequate to accurately indicate monthly changes in level. The sampling errors are random in nature; meaning that the unemployment rates, in any given month, are as likely to be high as frequently as they are low. The official definitions of unemployment, currently in place, exclude anyone who has made no attempt to find work in the four week period up to and including the week that includes the twelfth of each month. Most economists feel that Alaska's rural localities have proportionately more of these discouraged workers.

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